



November 7, 2019

By Electronic Delivery to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Ms. Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551

Re: Docket NO. OP-1670; Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments

Ladies and Gentlemen:

The Board of Governors of the Federal Reserve System (“Board”), having determined to go forward with the implementation of the FedNow real time gross settlement service, is now requesting comment on key issues that it has identified to date for the implementation of the service (“Comment Document”). As the developer and operator of one of the world’s leading private sector payment systems, Visa has extensive experience in designing and implementing payment systems. Given the high-level focus of the Comment Document, this comment will also necessarily address the issues raised at a high level. Please let us know anytime you would like to engage in more detailed discussions or elaboration on any of the topics addressed in this letter or related matters.

As an initial matter, Visa appreciates that the principles and policies adopted by the Federal Reserve since the enactment of the Monetary Control Act of 1980 and the Federal Reserve’s implementation of priced services will likely lead the Federal Reserve to apply different criteria in evaluating decisions on the FedNow service compared to those that a private sector operator is likely to apply. The Federal Reserve’s focus in developing payment services prioritizes safety, efficiency, and the fostering of a competitive environment for payment services without needing to consider the maximization of revenue or market share. The following observations are made with this difference in mind.

In Visa’s experience the development of payment services is often an iterative process in which some issues are readily resolved, while others are added, deleted, or modified as the critical path toward implementation progresses. In addition, we believe in making the hard choices early to ensure a concentrated focus on delivery and quality, while staggering less critical functionality into future releases to account for other market developments.

Of the capabilities identified in the Comment Document, Visa believes the following are core to the FedNow service: message type, settlement account, seven-day accounting regime, business day, liquidity and credit, and network access (Core Capabilities). These capabilities are

at the heart of the FedNow service and are central to safety, efficiency, and the fostering of a competitive environment for the stakeholders of FedNow.

After the Core Capabilities, we begin to get into the more complex and potentially sensitive issues. First, pricing is an issue unto itself. Second, we expect that auxiliary capabilities such as request for payment, directories, and fraud prevention will leverage FedNow, but the appropriate provider of these services is in question. The private sector currently provides these types of services across multiple payment types and transaction channels. Given the private sector's long-standing and broad experience with auxiliary services, we generally expect existing entities will be the most efficient provider.

The Federal Reserve's Criteria for Evaluating Proposed Payments System Changes, New Services and Service Enhancements, requires new services or major service enhancements to meet specified criteria. Visa believes that request for payment, directories, and fraud prevention are Service Enhancements for FedNow. Based on this perspective, we believe each of these capabilities should be evaluated under the relevant criteria of full cost recovery, clear public benefits, and they should be considered services that the private sector alone cannot be expected to provide with reasonable effectiveness, scope, and equity if the Federal Reserve were to develop those capabilities on its own.

## **Core Capabilities**

Visa agrees that the ISO 20022 message framework is appropriate for the use cases and services contemplated for FedNow. The use of Federal Reserve master accounts is consistent with the nature of the service, as is the adoption of a seven-day accounting regime and alignment of the Federal Reserve business day with the Federal Funds Service business day. Consistent with the Comment Document, Visa would assume that liquidity and credit would be based on current policies tailored to the FedNow service with its different hours of operation. Without venturing into central bank credit policy, Visa believes that the trend toward 24x7x365 financial services to keep pace with economic activity is likely to continue and ultimately to extend to discount window operations. Visa also assumes that network access would be provided through technical enhancement but would not require material changes from current policies for access to Federal Reserve accounts and Federal Reserve services.

## **Pricing**

Visa recognizes that the Federal Reserve's pricing is guided by statutory requirements and a corresponding set of pricing principles. While the Fed's pricing principles generally permit cost recovery over the long run, we believe the Fed's cost recovery for Core Capabilities should be within the 10-year cost recovery period. Specific to auxiliary services and pricing, we believe the Fed should follow market-based pricing. Overall, Visa believes that artificially low prices for the FedNow service and/or for auxiliary services will inevitably affect private sector decisions on service offerings. We ask that the Fed closely consider if, and how far, it should

extend the long-run time horizon and if it will artificially influence the market, making it more difficult for the private sector to compete and to innovate.

### **Auxiliary Services**

The Comment Document notes that value-add functionality will be a part of the FedNow service, either at launch or added incrementally. Visa agrees that outside of the Core Capabilities identified above, additional overlay services, such as the ones discussed in more detail below, are necessary for the ubiquitous adoption of real-time payments in the U.S. in the long run. In addition, we recommend the Board include other value-added services such as account tokenization, data analytics, and cybersecurity services, when defining the final description of the FedNow service, though many of these services need not be an immediate feature at launch.

Overall, Visa believes the private sector is best positioned and will prove most efficient in providing auxiliary services. From our global experience, we have witnessed the technology behind these services will evolve at a rapid pace; therefore, the private sector is best positioned to innovate. Visa is happy to discuss any of these services in more detail.

### **Request for Payment**

Visa believes that the availability of a request for payment message in the core platform will benefit the FedNow service and its stakeholders. First, it would simplify the use and adoption of real-time payments. Second, request for payment would likely reduce the number of routing errors that occur due to erroneous payee addresses. While the Federal Reserve should enable the core request for payment message set, we do not believe the Board should develop specific offerings using this capability. We expect the private sector will innovate and bring new functionality to market that takes advantage of the core request for payment message capability.

A note of caution. The request for payment messages also carry risks that must be mitigated. The amount of information that accompanies these types of payments (e.g., invoices, detailed records) can be significant and can contain private information. For example, bills for medical services can be detailed, sensitive, and extensive. Therefore, the FedNow service must carefully control access to and security of this type of information while it is in the Federal Reserve's control.

### **Directory Service**

The Comment Document also highlights the directory service as a way to aid senders of FedNow payments to route payments to the intended receiver. The Board notes that the availability of a directory that connects public identifiers with receivers' account information would provide senders' institutions with the needed routing information without revealing sensitive information to the senders. While Visa concurs that the availability of such information is critical to the efficient use of FedNow, Visa does not believe that the creation of such a

directory is one that the Federal Reserve needs to provide. For example, Visa itself has a system for routing payments to accounts. In addition, multiple fintechs and banks have built directories that link consumers to accounts.

Visa believes that the most efficient path to success for a FedNow directory service continues to be with the private sector. Competitive private sector directories are more likely to keep pace with technological changes and spur innovation than a single directory maintained by the Federal Reserve. In addition, legal and operational issues will arise and will need to be resolved in the development of a ubiquitous directory or set of directories that is up to date and accurate. For example, depending on the sources used to create and validate the directory or directories, issues under the Fair Credit Reporting Act may need to be resolved.

Although Visa believes that the directory service is best developed and maintained by the private sector, we recognize that depository institutions using the FedNow service will require directory services. With this in mind, we appreciate that the Fed may need to facilitate bringing together multiple directory providers to simplify the quick and efficient initiation and routing of FedNow payments.

## **Fraud Prevention**

Like the directory service, Visa believes that fraud prevention services would be provided most effectively by the private sector. Visa provides fraud prevention services to its member financial institutions. These services are supplemented by fraud prevention programs at each individual financial institution and various fraud prevention services available from third parties. Fraud prevention requires payments systems operators to be particularly vigilant as fraud techniques evolve rapidly. As a testament to the ongoing challenge of payments fraud, once new prevention techniques are implemented, fraud moves rapidly to exploit the next weakest vulnerability.

Given the nature of near real-time payment processing, we recognize that some form of fraud prevention service may need to be linked to the FedNow service itself, even if that service is provided by the private sector. Specifically, FedNow should allow for both network-level fraud prevention, which requires the ability to see across the network, and institution-level fraud prevention, which allows parties to consider individual risk parameters. Visa would be happy to discuss its experiences in fraud prevention with the Federal Reserve in greater detail, including perspectives on the appropriate role of the system operator and third party providers.

## **Interoperability**

Finally, the Board's decision to proceed with FedNow has generated significant discussion about "interoperability". In the Comment Document, the Board stated that the Federal Reserve intends to explore both interoperability and other paths to achieving nationwide reach in support of ubiquitous faster payments, while recognizing that these approaches may change over time.

Visa supports the Board's careful approach to interoperability and the goal of ubiquity. As the Board's statement recognizes: ubiquity, or the ability of any person or entity to pay any other person or entity, is one of the primary goals of payments systems.

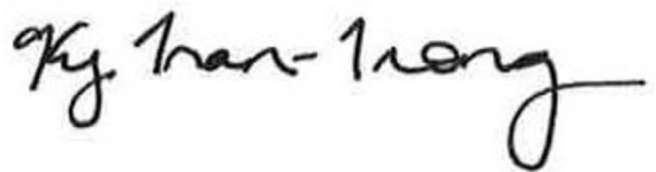
There are many potential approaches to achieving ubiquity and originator interoperability for U.S. real-time payments. Within the application layer, providers can format specific payment messages on behalf of end users. In addition, participants in the ecosystem can "bridge" between different rails, providing a seamless experience for users of either rail. This avoids complex integration between systems or specific mandates that would otherwise be required to reach interoperability.

Visa believes that FedNow can be designed, from both a technical and legal perspective, to deliver on the goals of ubiquity and interoperability. To be successful, it must be easy for other service providers, including application developers, individual banks, or other real-time systems, to connect to FedNow, extended through depository institutions to their customers consistent with current law. Furthermore, Visa believes in taking a phased approach, which will allow specific interoperability issues to be addressed as they arise. In contrast, fixing on a specific approach early in the process would make it difficult to respond to changes in the future.

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We would be happy to follow up with you on any aspects of this letter, with further supporting information, submissions, or discussions. If you have any questions concerning the issues raised in this letter do not hesitate to contact me at [ktrantro@visa.com](mailto:ktrantro@visa.com) or (202) 419-4109.

Sincerely,

A handwritten signature in black ink, reading "Ky Tran-Trong". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ky Tran-Trong  
Associate General Counsel  
Global Regulatory Affairs  
Visa Inc.